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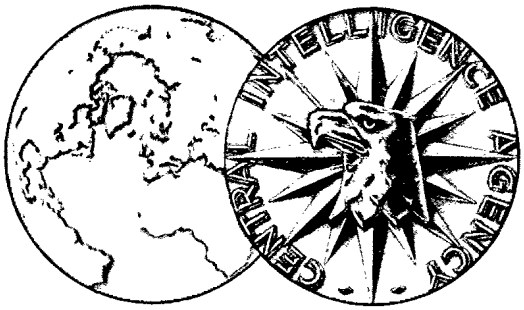
CURRENT SITUATION IN MALAYA



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CURRENT SITUATION IN MALAYA

SUMMARY

Primarily, Malaya is of importance to the US because it is the world's greatest producer of rubber and tin. In 1948 Malaya produced almost half of the total world production of natural rubber and more than a third of the world production of tin. World War II brought forcibly to US attention the importance of these vital commodities to a war-making machine; they retain their importance, if less urgently, in time of peace, and are on the lists of strategic materials designated for US stockpiling. Through the rubber and tin industries, Malaya is the sterling bloc's biggest dollar-earner. As such, Malaya's economic position materially affects that of the UK in the Western Alliance and thus affects ERP and other US financial commitments in Europe.

Of secondary but considerable importance are Singapore's extensive naval facilities and strategic location on world shipping lanes. Control of the Malayan peninsula, and especially the island of Singapore, entails control of the Straits of Malacca through which passes most of the sea-borne commerce between the West and the populous nations of the Far East. Singapore's harbor, with its repair facilities, is a natural base for naval forces, while the airfields on Singapore Island offer the best potential facilities in Southeast Asia for long-range aircraft.

Withdrawal of British forces from India and Burma gives Singapore even greater importance as a staging point for British Commonwealth military forces. The naval installations in Singapore have been restored, and Singapore is the focal point of all British armed forces from Ceylon, on the west, to Hong Kong, on the east. Unrest in the Far East not only has further aggravated the problem of area defense there, but also has thrown greater responsibility upon Singapore in the British Empire Defense Plan.

The UK has thus far been successful in maintaining control of Malaya, and Malay nationalism has not yet developed to the point where it could threaten this control in the near future. Certain pressing problems, however, are facing the British. The most urgent is terrorism, carried on by a predominantly Communist guerrilla movement numbering 3–5,000 armed members, led and inspired by Chinese whose purpose is the wresting of political control from the British.

To counteract this threat, the British have instituted strong political and military action. Although terrorist activity has been fairly well contained, the threat is still present and necessitates large expenditures of money and manpower. An additional problem, and one which is likely to grow steadily in importance, is that of communal friction between the Malays, who are favored politically by the British, and the Chinese, who, second only to the British, dominate the economic life of the peninsula. So far, efforts to increase racial harmony between these two have had at best only a superficial effect.

Although neither tin nor rubber production has been seriously affected by terrorist activity, the producers fear the possible effect of a decline in world markets. The rubber industry (which wholly or partially supports a third of Malaya's population) faces not only the likelihood of increased competition from neighboring countries' natural rubber but the competition of synthetic rubber. The danger is less with respect to tin, but a lessening of world demand, with a consequent drop in price, is a strong possibility. A decline in

Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report. It is based on information available to CIA as of 31 October 1949.

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either or both industries, accompanied by serious unemployment, would mean an end of Malaya's economic stability and might bring political chaos.

Continued British control of Malaya and, consequently, continued US access to Malaya's strategic commodities, will largely be determined by (1) how Malaya's 2½ million Chinese align themselves politically when the full effect of China's Communist victory is felt; (2) the extent of moral and material aid given Malaya's terrorists by the Communist regime in China; (3) the degree of friction or cooperation between the almost numerically equal Malay and Chinese communities; (4) the degree of Malay political solidarity and willingness to accept continued UK control; and (5) the status of Malaya's rubber and tin industries.

Over the next five years, the net effect of these pressures on the UK probably will be to threaten British control of the area, and, toward the end of this assumed period, will mean the granting of greater participation in the government to the Chinese in Malaya, thus legally recognizing their increasing influence.

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CURRENT SITUATION IN MALAYA

THE POLITICAL SITUATION

1. Background.

After World War II, the government in Malaya underwent several changes, finally evolving into two distinct entities—the Colony of Singapore and the Federation of Malaya. The British Military Administration was superseded on 1 April 1946 by a Malayan Union which brought together the nine prewar Malay States (four Federated and five Unfederated) and the Straits Settlements, excluding Singapore which became a separately governed Crown Colony. Malay opposition to the Union led to its replacement by the present Federation of Malaya on 1 February 1948.

The Federation differs from the earlier Union mainly in that it nominally restores sovereignty in the States to the Sultans, and makes several other relatively minor concessions to Malay sensibilities. As now constituted, the Federation of Malaya is a protectorate, over which the British exercise exclusive control of all internal and external affairs, through the mandatory advice of British advisors in each of the States, except in matters pertaining to the Mohammedan religion and Malay customs, which remain under the jurisdiction of the Sultans. The framework of the Federal Government includes appointed Executive and Legislative Councils, with numerical representation in these bodies heavily weighted in favor of the Malays as against other racial communities. Similar Councils appointed by the Sultans exist in the various States.

At the top of the Federation Administration is a British High Commissioner in whom are vested such extensive powers as unlimited veto, unilateral promulgation of Legislation, and appointment of members to the Executive and Legislative Councils.

The Crown Colony of Singapore, quite similar in governmental structure to the Federation, is administered by a Governor. Six of its twenty-two Legislative Council members are elected.[1]

The major obstacle to efficient operation of these two Governments is the peculiar composition of Malaya's population, which is a constant and increasing threat to British control. The 1947 census of both areas indicates a total population of 5,818,434, approximately half Chinese and half Malay. In the Federation itself there are 1,882,874 Chinese and 2,135,811 Malays. In Singapore Colony there are 728,523 Chinese and only 73,802 Malays. There are, in addition, 534,148 Indians in the Federation and 71,300 in Singapore. The Chinese, and, to a lesser degree, the Indians, object to the favoritism shown the Malays by the British administrations in the Federation and Singapore. Even the Malays are not enthusiastic over the British rule, but most of them accept it as a temporary expedient against domination by the politically and economically aggressive Chinese.

2. Current Problems.

a. Terrorism.

(1) *Terrorist Organization, Strength, Composition.*

The most pressing current problem in the Federation is terrorism which began in May 1948, instigated and led by the Malayan Communist Party (MCP). The terrorists, approximately 95 percent of whom are Chinese, now number between 3,000 and 5,000 according to the best available estimates. Their fighting organization, the Malayan Peoples'

[1] Singapore also serves as the headquarters of the Commissioner General for the UK in Southeast Asia, whose job it is to coordinate policy in Britain's Southeast Asian possessions, which include, in addition to Malaya and Singapore, portions of Borneo, the Crown Colony of Hong Kong, and minor islands in the eastern Indian Ocean.

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Anti-British Army, evolved from the Malayan Peoples' Anti-Japanese Army, a jungle-wise guerrilla force which during World War II was largely under the direction of the Malayan Communist Party, although partially supplied and trained clandestinely by the British.

The terrorists' organization, which never reached a high degree of efficiency, has deteriorated in the past few months, owing to vigorous British countermeasures and lack of general support from the populace. Direction of the terrorists is in the hands of several hundred "hard core" Communists, but there seems to be almost no coordination between guerrilla bands in various parts of the country. Since June 1948 the guerrillas have sustained in excess of 870 confirmed casualties. The terrorists have been forced to withdraw to rather inaccessible and sparsely populated jungle areas in central and northern Malaya, leaving behind only small groups known as "killer squads" to continue sporadic and relatively ineffective attacks against estates and mines and civilian personnel.[1]

(2) *Terrorist Aims, Program, Propaganda.*

[redacted] the guerrilla program underwent a significant change toward the end of 1948. There is reason to believe that, in the early stages of violence, when the terrorists were enjoying the advantages of surprise and considerable freedom of movement, they hoped to wreck Malaya's economy and wrest political control from the British in a matter of months. There are also indications that they anticipated moral and material aid from other Communist-led movements in Asia. However, a reappraisal of the situation several months later reportedly led the terrorists to change from a short-term campaign of sabotage, violence, and murder to a long-range strategy of attrition both of the country's economy and the Government's authority, through a campaign of continued, but less intense military action, and greater political work towards gaining public support and recruiting new members.

Terrorist activities seriously affected general morale, and a marked lack of popular cooperation with British forces was evidence of decreasing faith in British ability to maintain law and order. The Chinese, who suffered the heaviest casualties, were the most noticeably affected. Europeans engaged in rubber and tin production, inadequately armed and lacking proper protection by British troops and police, found themselves easy targets. However, the full deployment of the security forces and the resultant drop in terrorist incidents has had a salutary effect on morale.

Clandestine MCP newspapers and pamphlets present a steady stream of propaganda, the keynote of which is hatred for the British soldier and the British Government. Highly colored accounts of terrorist exploits and security force "atrocities" appear regularly, along with bitter denunciation of British imperialism.[1]

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(3) *Exploitation of Populace.*

Although much of the terrorist propaganda is directed toward the Malays, they have so far been unaffected by it. Neither has the vast majority of Malaya's Chinese population shown signs of being swayed to overt action,

[1] The terrorists appear to be increasingly short of arms and ammunition. British security forces (totaling over 100,000) have recovered considerable quantities of guerrilla supplies and a program of material aid from outside the country has apparently not materialized. From 1 May 1948 to 30 June 1949, more than 2,600 rifles, nearly 500,000 rounds of ammunition, 2,000 shells, nearly 1,700 hand grenades, more than 1,400 mortars, and nearly 500 pistols and revolvers were recovered by the British.

[1] A booklet, captured in Perak and entitled "The Aims of Present Propaganda," contains a typical illustration of the current line: (1) expose the violence of Britain's postwar colonial policy and the extreme hardship and suffering it inflicts on the Malayan people; (2) represent Britain as being forced into a policy of fleecing the Malayan people as a result of its weakened domestic and international postwar position; (3) accuse British imperialism of robbing the people of their victory in World War II and of adopting the Fascist method of police and military rule to suppress the people's movement; (4) convince the masses of the invincibility of the forces ranged against British imperialism; and (5) recount the Party's "glorious" history of struggle for the independence of the Malayan people during the past twenty years.

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although many of them are susceptible to such propaganda as a result of dissatisfaction with their present status or because of sheer opportunism.

In the past, terrorists have been successful in extracting "protection money" from Chinese rubber estate and tin mine owners, but recent police measures have probably reduced this practice.

One serious problem which some British officials regard as the key to the terrorist situation is the more successful exploitation of Malaya's "squatters" by the guerrillas. The squatters, who number roughly 500,000, are displaced or immigrant Chinese who have settled illegally on Government holdings, or land reserved for the Malays, in scattered groups throughout the Federation. It is believed that relatively few squatters have voluntarily aided the terrorists, but many more have been intimidated and blackmailed into contributing food, money, information, and shelter to marauding bands. Furthermore, the illegal squatter communities provide ideal cover for the terrorist guerrillas, and threats of violence and death prevent many squatters from reporting the presence of guerrilla bands to the security forces.

The great majority of Malayan Chinese, however, still pursue a noncommittal policy toward Malaya's civil strife. Although some of Malaya's most influential Chinese have shown signs of accommodation with the victorious Communists in China proper, there is yet no indication among Malayan Chinese in general of a significant swing to the Communist movement. The fact that they have traditionally been aligned politically and economically with China nonetheless presages increasing difficulties for the British when the full effect of the Communist victory in China is felt. Already the Kuomintang has become decreasingly effective,[1] and several Chinese newspapers have adopted a strong sympathetic attitude toward the Chinese Communists.

[1] Rather than face recent restrictions, the KMT in both the Colony and the Federation has decided to close its branches and to cease (overt) activities.

(4) *Soviet Direction and Support.*

There is no evidence of overt Soviet direction of current developments in Malaya or of Soviet agents operating in the area. There are, however, strong indications that the order for the terrorists' uprising emanated either from the World Federation of Democratic Youth Conference or from the Second Congress of the Communist Party of India, both of which were held in Calcutta early in 1948. The militant policy which emerged from these conferences is believed to have been the basis for the near-simultaneous Communist-inspired uprisings in Burma, Indonesia, and Malaya. Furthermore, Malaya has received the attention of the Soviet radio and press, which terms Malaya's insurrection a "national liberation struggle of the Malay people" and derides British promises for the country's eventual independence in the face of what is called the "greedy colonial war."

(5) *Chinese Communist Direction and Support.*

Evidence exists of Chinese Communist interest in the Malayan situation. On 22 May 1949 the Peiping radio, in a statement prepared by two banished Malayan Chinese Communist labor leaders, protested the British hanging of an Indian Communist labor leader in Malaya, and characterized the guerrilla warfare as a "revolutionary upsurge" and "a sign of the solidarity of the revolutionary forces of the workers of Chinese nationality with the Malayan peasants." Propaganda interest in Malaya, together with promises of "moral and material aid wherever possible" to colonial areas in Southeast Asia, indicate that the Chinese Communists will try to counteract the British anti-Communist campaign. STAT

There has been no evidence of material support from the Chinese Communist Party (CCP) since the latter part of 1948. At that time, [redacted] twenty members of the CCP arrived in STAT Singapore to assist the MCP in the work of reorganization. Another report, possibly referring to the same development, stated that the South China Bureau of the CCP planned to send sixty reinforcements to the MCP and

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that some if not all of them left Hong Kong for Malaya in September 1948.[1]

(6) *British Political Countermeasures.*

Apart from the military effort against the terrorists, the British have rigidly enforced numerous and drastic political measures designed to counteract lawlessness in Malaya and to halt the spread of Communism. The Communist-infiltrated Pan-Malayan Federation of Trade Unions (PMFTU) was proscribed on 14 June 1948, and on 23 July 1948 the Malayan Communist Party and its Satellites, the MPAJA, the New Democratic Youth League, and the PETA (a Malaya youth group) were banned throughout Malaya. The China Democratic League, presumed to be a Communist front, has been declared illegal in the Federation, and is operating under such severe restrictions in the Colony as to make its future doubtful. Police emergency powers, invoked first on 16 June 1948 in certain parts of the Federation, were legislatively enacted a few weeks later as Emergency Regulations Ordinances affecting both the Federation and the Colony.

These Emergency Regulations grant wide powers to the two governments: banishment of individuals, a mandatory death sentence for illegal possession of arms, powers of search of persons and premises without a warrant, long-term detention of suspects without trial, close control over movements of persons and vehicles, and power to impose curfews and occupy properties. Legislation, making compulsory the registration of Chinese over twelve years of age and the carrying of identity cards, was later enacted.

From the beginning of the Emergency through June 1949, 3,000 aliens and 56 British subjects (most, if not all, Chinese and Indians) have been deported under the Emergency Regulations, and some 7,500 persons have been detained, among them many Chinese squatters, suspected or convicted of aiding the terrorists. In particularly bad areas of the Federation, whole groups of squatters have been deported, and for security reasons some squatter areas have been completely evacuated and resettled.[1]

The Emergency Regulations also provide that anyone contributing funds to the guerrillas is liable to arrest and prosecution. Although some property owners have been arrested, it is believed that the terrorists still are able to collect funds through extortion sufficient to cover a large part of their operating expenses.

(7) *Labor Movement.*

Immediately before the formal outlawing of the MCP in July 1948, Malaya's leading labor personalities, who were also Communist Party members, reportedly went underground, taking the Union's funds with them. This action, combined with the earlier banning of the PMFTU, which pretended to represent most registered labor unions in Malaya, left Malayan labor in a seriously demoralized state. Immature, lacking in spontaneity of unionization and collective action, frustrated by racial antagonism and handicapped by the peculiarities of Chinese workers' membership in guilds and secret societies, organized labor in Malaya has been seriously disorganized since that time. While the Government has pursued a policy of encouraging workers' groups and has registered 163 individual unions, which are attempting to maintain some corporate status at the present time, emergency conditions are severe obstacles to the restoration of trade unionism. The lack of money, union distrust of Government assistance, as well as unfriendliness in some business quarters toward a revival of trade

[1] Captured documents and interrogation of terrorist prisoners, indicate that Chinese Communists from Indochina, Thailand, and Indonesia have infiltrated into Malaya. A captured terrorist leader reported that thirty leaders, sent to Indochina for training in 1947, returned to Malaya some time in 1948 and were responsible for increased terrorist activities in certain areas of the Federation in December of that year.

[1] The squatter problem continues to be a costly one, and the Government hopes to implement as soon as possible the recommendations of a Squatter Committee's report, issued 8 February 1949, which suggests that the squatters be settled legally on the land they now occupy, and, where that is not possible, resettled permanently on other lands. The report stresses the necessity for re-establishing the administrative control over squatter areas which has been completely lacking in the postwar period.

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unionism, all further hamper Government efforts to re-establish Malaya's unions.

b. Nationalism.

Nationalism as it is known in neighboring Southeast Asian countries is still incipient in Malaya and does not now constitute a serious threat to British control. The present terrorist disorders, involving, as they do, only a small segment of the Chinese population, largely under immigrant Chinese leadership, cannot properly be considered a manifestation of nationalism. The Malays have themselves only recently displayed an appreciable degree of political awareness and a desire for self-government—a desire rather effectively held in check by fear of Malayan Chinese domination in the event of independence.

(1) *Political Organization and Activity.*

Of the two major Malay political organizations, the United Malay Nationalist Organization (UMNO) is by far the larger. Its leader, Dato Onn bin Jafaar, is Prime Minister of Johore, the largest Malay State, and the most influential and respected Malay in the country. Relatively conservative in its political orientation, the UMNO stands for what Dato Onn calls "Malayism," which "aims at achieving and maintaining Malay interests." The organization, until recently supported by the Sultans, accepts the premise that Malaya will not be ready for self-government for several years. Its most recent move, devised to broaden its popular support, was to allow associate non-voting membership to non-Malays. Dato Onn's increasing political strength and the aims of the UMNO, which include the establishment of a single Malayan State with one ruler, have aroused considerable opposition from the Sultans, who are cognizant of these threats to their sovereignty. As a result, some of the Sultans are attempting to undermine the influence of both Dato Onn and the UMNO, which may lead to the polarization of most Malays into either pro-Sultan or pro-UMNO factions. Such a split in Malay ranks could be extremely embarrassing to the British administration which would, in supporting one faction, alienate a sizable group of Malays in the other.

The Malay Nationalist Party (MNP), a relatively small left-wing organization, has been more vociferous and reportedly was used, before the Emergency, by the MCP in an attempt to draw Malays into the Communist bloc. Whereas the UMNO has adopted a cooperative attitude toward the British, the MNP is considerably more militant and nationalistic, and British intelligence indicates that only a decision to conserve strength prevented MNP collaboration with the terrorists.

While recent intimations from leaders of both the UMNO and the MNP indicate that a rapprochement achieving greater unity among the Malays may be reached some time in the future, an effective union of the two groups does not appear immediately feasible.

The only articulate non-Malay political organization in Malaya is the left-wing Malayan Indian Congress, a rather ineffectual group that maintains close ties with India.

(2) *Nationalism and Self-government.*

The Federation and Colony Governments have encouraged political activity as valuable training for the eventual orderly assumption of self-government. Commissioner General MacDonald stated on 17 January 1949 that the purpose of the British administrators in Malaya is to "unite and gradually transfer rule." Prime Minister Attlee's 13 April 1949 statement that Britain has no intention of withdrawing prematurely from Malaya has reassured both European businessmen in the Federation and those Malays fearful of the Malayan Chinese threat.

(a) *Communal Friction.*

Malay nationalism is closely bound up with the increasingly vexing problem of communal friction between Chinese and Malays, a problem which looms large in any consideration of self-government for the country. The British policy, which favors indigenous Malays, has prevented the Malayan Chinese from dominating the country politically as they now do economically. The Malays are opposed to any concessions given the Chinese which might threaten present Malay political supremacy. Malaya's Chinese, on the other hand, are generally dissatisfied with the political framework of the Federation, and with their lower political status in particular. The Malayan Chinese resent the difficulties of obtaining citizenship, the treatment of squatters

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and other hardships resulting from the present Emergency Regulations, and their unequal representation in the Government.

The British are making some efforts to allay this communal friction. A Government-encouraged Malayan Chinese Association (MCA) was established on 27 February 1949 to foster inter-communal harmony and cooperation. So far, its results have been disappointing. The Commissioner General also sponsored a ten-man Sino-Malay Goodwill Committee, composed of leading Malays and Chinese, to explore the objective of political homogeneity and to foster a common Malayan nationality. The group, now known as the Communities Liaison Committee, includes representatives of other racial groups and reportedly is reviewing the whole field of relations between the communities in Malaya—economic, social, and political. Such organizations, however, will not be able to provide a final solution to racial differences in the foreseeable future.

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THE ECONOMIC SITUATION

1. Importance of Malaya's Products to US and UK.

Although Malaya is a significant exporter of coconut products, palm oil and pineapples, these are secondary in importance to the two major exports, rubber and tin. In 1948, rubber constituted over 60 percent of the value of total exports from the Federation alone and provided the sole or main source of livelihood for one-third of the population. Rubber production in the Federation reached an all-time record of 696,978 long tons in 1948.[1] The US was the leading purchaser with 371,391 tons, over half of total US rubber imports. Slightly lower production and export levels have been maintained so far during 1949.

Tin-ore production in 1948 rose to 59,753 tons, approximately 67 percent over the previous year although some 50 percent below the highest prewar levels. Tin-metal exports were 47,214 long tons, of which the US took 29,497 tons, about a third of total US tin-metal imports. Malaya's tin production in 1949 is expected to be somewhat higher than that of 1948.

Rubber and tin, currently being stockpiled as strategic commodities in the US, represent the principal source of Malaya's income and made that country the sterling area's greatest dollar-earner in 1948. US interest in the Malayan economic situation, then, is twofold: (1) Malaya is the principal source of two important strategic materials; and (2) Malaya's earnings strengthen the UK financially.

2. Current Production and Outlook.

a. Rubber.

During the first six months of 1949 over 300,000 long tons of rubber have been produced in Malaya. The future of the Malayan rubber industry, however, is clouded by several economic factors. The most publicized of these is the competition offered by synthetic rubber, although the ultimate results of this competition cannot now be conclusively assessed. An equal threat lies in the fact that the greater part of Malaya's production is from large Western-owned estates which produce at a high cost as compared with Asiatic small-holdings. Over half the production in Indonesia, Malaya's principal competitor, is from small-holdings. The industry's competitive position is also adversely affected by the comparatively advanced age of Malayan plantings and by the small percentage of high-yielding rubber trees. These factors cannot be overcome except over a period of years and at a cost which the present price of rubber makes difficult. The Malayan industry has benefited since the war from the abnormally low production in Indonesia and Indochina, a result of unstable political conditions. A return to normal production in those countries will bring a decline in Malaya's relative position in the industry. For these reasons, the weakness of the rubber market since the fall of 1948 has been a matter of extreme concern both to the planters and to Malayan and UK authorities as well.

b. Tin.

During the first six months of 1949, over 35,000 long tons of tin ore have been produced in Malaya. Factors adversely affecting the outlook for Malayan tin production, however, are (1) the slow progress made in rehabilitating the industry; (2) uncertainty over the future market for tin; and (3) the temporary cessation of prospecting and development of new tin-producing areas.

c. Rice.

A factor of primary importance in all Malayan labor costs and therefore in Malaya's competitive position in world markets, is the

[1] Total exports of rubber from Malaya (which included imports for re-export, mainly from Indonesia) were 979,172 tons.

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price of rice.[1] Malaya, able to produce only approximately one-third of its rice requirements, is dependent upon imports. Malayan authorities have taken several steps to stimulate domestic rice production but it is estimated that maximum production cannot provide more than 40 percent of requirements.

3. Effect of Terrorism.

According to figures issued by the British, terrorism has so far had no appreciable effect on current Malayan production. Terrorist activities, however, probably have affected future production, and should terrorism continue, the long-term outlook is not encouraging. The tin industry has probably suffered most. Prospecting for new tin deposits has been virtually halted because of danger to personnel from guerrilla bands and further rehabilitation of the industry—repairing of dredges, and development of present installations—has suffered for the same reason. The uncertainty of the European position in Malaya, particularly when terrorism was at its height, made owners of rubber estates and tin mines reluctant to invest new capital. The danger of terrorists in the relatively unprotected large rubber estates has resulted in a low rate of replanting, which seriously affects future production. Government aid in rehabilitating and developing the industries, moreover, is necessarily limited by the large Government expenditures required for the terrorist suppression campaign.

4. Antagonism toward US Tin and Rubber Policies.

Malaya's rubber planters are deeply disturbed by the US synthetic rubber program. Planters complain that although the program may be partially justified for US security reasons, it is holding down the price of natural rubber to a level where some estates can operate only at a deficit. Relaxation of certain of the mandatory regulations concerning US use of synthetic rubber following the US-UK-Canadian financial discussions in September 1949 was well received. There remains considerable fear, however, that an increase in the use of synthetic rubber in the US, with a subsequent reduced demand for natural rubber, may force many planters out of business and create mass unemployment, which in turn would threaten British control in Malaya.

Tin producers likewise have grievances against US policies. While the price of tin has been satisfactory, Malayan producers fear that US stockpiles may be unloaded on the world market at some future date without regard for the interests of the industry. They dislike the pressure from the US to acquire ore for the Texas City smelter, since the capacities of the Singapore and Penang smelters are far above present Malayan ore output. A long-established complementary relationship exists between Malayan mine owner and smelter.

5. Devaluation.

Malayan currency was devalued by the same amount as sterling on 18 September 1949.[1] The effect on the price of rubber, which is determined in a free market, was of course a rise in terms of sterling and Straits dollars, and a fall in terms of US dollars. Undoubtedly devaluation will, at least temporarily, benefit Malayan producers. The lower US dollar prices will improve the competitive position of natural rubber relative to synthetic, and the higher return in local currency to Malayan producers will—again, temporarily at least—ease their cost problems. The position of the Malayan industry relative to other major producers will be little affected in view of the similar devaluation of other soft currencies.

All Malayan tin has been purchased and sold at a fixed price by the British Ministry

[1] At the present time, the Government-controlled price for rationed rice is approximately three times the prewar price and the price for open-market rice, with which all Asiatics must augment their ration, is considerably higher. Rice imports, principally from Burma and Thailand, are a major source of those Governments' income and the Malayan employer who pays a living wage must, in effect, raise wages to include the mark-up that these Governments place on their exported rice. The rubber industry, whose product is selling below 1940-41 prices, is particularly burdened by current rice prices and, within the industry, the estate producers who employ large labor forces are affected most severely.

[1] Prior to devaluation on 18 September 1949, S$1.00 equaled £0.2.4 or US $0.4675. Since devaluation S$1.00 equals US$0.325.

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of Supply. Following devaluation, the US dollar price was lowered from $1.03/lb. to $.95/lb. and the sterling price raised. UK authorities now plan to reopen the London and Singapore metal exchanges and permit tin to find a free market price. A further reduction in the dollar price is probable which, however, should serve to stimulate dwindling demand.

6. Finances.

The finances of the Federation are severely strained. During the past few months, urgent representations for financial aid have been made to the UK. It is estimated that the emergency is costing the Federation S$300,000 a day. Total expenditures of the Federation in 1948 were an estimated S$385,-182,017 and the resultant deficit estimated at over S$113,000,000 was met through borrowing and drawing on Reserve Funds. The estimated 1949 deficit (now believed too low because of increased Emergency costs) is S$58,-717,447.

The Colony of Singapore, in somewhat better financial condition, recently presented the Federation with a gift of S$4,000,000 for the suppression of lawlessness. Although a S$25,-200,000 deficit occurred in 1948 (practically all accounted for by a shortfall of S$25,000,000 in estimated revenue from income tax), the anticipated surplus for 1949 is S$6,500,000. According to the Colony's Financial Secretary, the present financial position apparently gives no cause for concern.

An £8,000,000 3 percent loan was floated in London in May 1949 for Federation financing of rehabilitation and development projects. The total amount of assistance to Malaya from the UK is expected to reach £31,000,000, which will be variously used to finance Emergency costs, pay for war damage compensation claims, and contribute toward colonial development schemes.

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THE MILITARY SITUATION

1. British Strength and Capabilities; Morale.

The strength of British Far East Land Forces (FARELF) in Malaya totals 39,000. Tactical units consist of seven battalions of British infantry, seven battalions of Gurkha infantry, three battalions of Malay infantry, one British artillery regiment,[1] one Malay artillery regiment, and one British armored car battalion. The various support and administrative units are composed mainly of Malays with smaller elements of Ceylonese, Chinese, and Indians. All arms, equipment, ammunition, and part of the rations for this Force are supplied from the United Kingdom.

The Royal Air Force strength in Malaya is 68 aircraft, of which approximately 50 percent are directly involved in the suppression of the terrorists. The RAF assists in locating terrorist units and bases, attacks isolated concentrations independently, strafes terrorist hideouts in support of ground forces, and transports men and supplies to forward areas. Carrier-based aircraft of the Royal Navy have participated recently in ground support missions.

In addition to the British military forces there are 60,000 to 70,000 police and auxiliaries, mostly Malays of varying levels of training and usefulness, engaged in terrorist suppression under British command. The overall capabilities of the police forces have steadily improved.

At present, the security forces have the capability of protecting mines and plantations from serious losses. Recent operations, together with the positive measures which the British are continuing to take, offer reasons to believe that the situation will continue to improve. Despite these optimistic signs, military strength in the near future will undoubtedly be maintained at the maximum permitted by commitments elsewhere.

The morale of British forces in Malaya has improved considerably during recent months, as a direct result of the improved security situation. RAF morale is particularly high.

2. Terrorist Strength and Capabilities; Morale.

The scattered nature of the Malayan terrorists makes it difficult to develop an accurate estimate of their strength. A figure of 3,000-5,000, based on an analysis of terrorist attacks over a period of time, is considered the soundest available estimate. Reportedly, terrorist forces are well supplied with small arms but are chronically short of ammunition. Their base of popular support, the Chinese squatters, is being weakened by British countermeasures.

While the terrorists are able to disturb Malaya's economic life by means of murder and sabotage, they do not now possess the capability either of completely disrupting the economy or of driving the British out of the country. Recent vigorous measures taken by the security forces apparently have weakened the terrorists but, while their morale has suffered accordingly, there is no evidence to suggest that it has collapsed. Indeed, the success of the Chinese Communists undoubtedly has encouraged the Malayan Communists, even though it has not added to their present physical capabilities.

3. Terrorist Tactics.

Terrorist tactics are to avoid contact with the security forces as much as possible, while inflicting maximum damage upon public order and the economy. The terrorists operate in small groups of twenty men or less, and typical activities during the past six months include: (1) slashing of rubber trees; (2) sabotage of electric power lines; (3) sabotage of hydraulic intakes to tin mines; (4) burning of cover crops on rubber estates, with consequent damage to trees; (5) ambushing of security patrols; (6) raiding in order to obtain arms and ammunition; and (7) assassinations.

The reduction of terrorist activities in recent months is primarily the result of reinforcement and full deployment of the secu-

[1] A British Army artillery regiment corresponds to a US Army artillery battalion.

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rity forces, with a consequent interdiction of terrorist communications and destruction of some terrorist bases of operations. Compelled to modify their tactics, the terrorists have begun to concentrate their attacks on the easier targets offered by unguarded estates and mines, vehicles on isolated roads, and vulnerable railroads and telecommunications. Theft of civilian identity cards has facilitated terrorist infiltration and sabotage.

4. British Tactics.

British tactics are centered on intensive patrolling activities, pursuit of terrorist bands, and the destruction of known terrorist concentration areas and bases of supply. The RAF assists the security forces in locating terrorist units and bases and, on occasion, by bombing suspected terrorist strong points. Units of the Royal Navy patrol both coasts of Malaya to prevent arms smuggling. Elements of the security forces and special police, deployed defensively for the protection of important estates and installations, are inadequate to safeguard every target, however, and scores of places remain vulnerable to terrorist attack.

5. Foreign Implications.

a. Thai-British Cooperation.

The British security forces and the Thai Army have been conducting joint operations, under British direction, against the Malayan terrorists along the border of Thailand, where the Thai Army has stationed five infantry battalions, totaling about 2,500 men. The British have sold the Thai Army $25,000 worth of small arms and ammunition exclusively for the use of these battalions and, in addition, have been training a small group of Thai officers in the Jungle Warfare School in Johore.

Owing largely to Thai inefficiency, however, these joint operations have not been effective in stopping the escape of terrorists across the border, and the British have recently concluded an agreement with Thailand permitting British security forces to pursue escaping terrorists a distance of forty miles inside the territory of Thailand, provided that the security detachments are accompanied by Thai police. It is believed that this measure will improve the capabilities of the security forces in dealing with the terrorists.

b. Possible Terrorist Infiltration and Smuggling.

The British have no evidence that the Communist Chinese terrorists in Malaya have been receiving supplies of arms and ammunition from outside the country since 16 June 1948. While some Chinese have arrived illegally by sea since then, it is uncertain whether those arriving can be classed accurately as terrorist reinforcements.

An important consideration in assessing future terrorist capabilities is the relative isolation of Malaya from the present centers of Communist armed strength in China and northern Indochina. As long as the British Navy dominates the Malayan coasts and the Thai border is adequately policed, the terrorists will have to depend largely on local resources and can expect little external support either in terms of manpower or material.

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